Table 9-2 **Building Blocks for Expected Return Construction**

	Value
Yields (Riskless Rates)[1]	
Long-Term (20-year) U.S. Treasury Strip Yield	6.8%
Intermediate-Term (5-year) U.S. Treasury Strip Yield	6.5
Short-Term (30-day) U.S. Treasury Bill Yield	4.9
Fixed Income Risk Premia[2]	
Expected default premium: long-term corporate bond total returns minus long-term government bond total returns	0.2
Expected long-term horizon premium: long-term government bond income returns minus U.S. Treasury bill total returns*	1.4
Expected intermediate-term horizon premium: intermediate-term government bond income returns minus U.S. Treasury bill total returns*	1.1
Equity Risk Premia[3]	
Long-horizon expected equity risk premium: large company stock total returns minus long-term government bond income returns	8.1
Intermediate-horizon expected equity risk premium: large company stock total returns minus intermediate-term government bond income returns	8.5
Short-horizon expected equity risk premium: large company stock total returns minus U.S. Treasury bill total returns*	9.4
Small Stock Premium: large company stock total return minus small company stock total return	4.3

[1] As of December 31, 1999. Maturities are approximate.

[2] Expected risk premia for fixed income are based on the differences of historical arithmetic mean returns from 1970–1999.

[3] Expected risk premia for equities are based on the differences of historical arithmetic mean returns from 1926–1999.

*For U.S. Treasury bills, the income return and total return are the same.

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